APPENDIX

Revenue Act of 1934, c. 277, 48 Stat. 680:

SEC. 22. GROSS INCOME.

(a) *General Definition.*—"Gross income" includes gains, profits, and income derived from salaries, wages, or compensation for personal service, of whatever kind and in whatever form paid, or from professions, vocations, trades, businesses, commerce, or sales, or dealings in property, whether real or personal, growing out of the ownership or use of or interest in such property; also from interest, rent, dividends, securities, or the transaction of any business carried on for gain or profit, or gains or profits and income derived from any source whatever. * * *

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SEC. 351. SURTAX ON PERSONAL HOLDING COMPANIES.

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(b) *Definitions.*—As used in this title—

(1) The term "personal holding company" means any corporation (other than a corporation exempt from taxation under section 101, and other than a bank or trust company incorporated under the laws of the United States or of any State or Territory, a substantial part of whose business is the receipt of deposits, and other than a life-insurance company or surety company) if—

(A) at least 80 per centum of its gross income for the taxable year is derived from royalties, dividends, interest, annuities, and (except in the case of regular dealers in stock or securities) gains from the sale of stock or securities, * * *

Treasury Regulations 86, promulgated under the Revenue Act of 1934:

> ART. 351–2. *Classification of a personal holding company.*—A personal holding company is defined as any corporation (other than a corporation specifically exempt), first, 80 percent or more of whose gross income for the taxable year was derived from royalties, dividends, interest, annuities, and gains from the sale of stock or securities; * * *.
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> The gross income for purposes of section 351 means the gross income as computed under sections 22, 204, and 231 and the articles thereunder, for purposes of the taxes imposed by Title I. Accordingly, items excluded from the gross income under Title I are not to be included in determining gross income under section 351. Gross income is not synonymous with gross receipts. For example, in the case of a sale or exchange of property, it includes only the excess of the amount realized therefrom over the adjusted basis provided for in section 113 (b). It does not include gains which are not recognized under section 112 (b). In the case of a corporation reporting on the installment basis, it includes only that portion of the gain returnable as income under section 44. In the case of a manufacturing, merchandising, or mining business, "gross income" means the total sales, less the cost of goods sold, plus any income from investments and from incidental or outside operations or sources. In determining gross income, subtractions should not be made for depreciation, depletion, selling expenses, or losses, or for items

not ordinarily used in computing the cost of goods sold. Sales of capital assets as defined in section 117 must be treated as separate transactions and only those sales which individually resulted in profits shall be considered in determining the gains derived from such source. Gains from all transactions involving stock in trade, etc., are determined for the taxable year as a whole instead of separately.

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